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TAGS: [PGOV](#) [PREL](#) [EFIN](#) [EC](#)

SUBJECT: GOE CONSIDERING CHAVEZ LOAN

Classified By: Charge d'Affaires A.I. Kevin Herbert for reason 1.4 (b&d )

11. (C) Summary: The Palacio government may be considering a \$500 million loan from Venezuela, after visits to Caracas by FM Parra and MinFin Correa. The GOE is apparently considering turning to Chavez to fill a looming budgetary gap caused by investor lack of confidence in Correa, the possibility that IFIs will not disburse as planned, and likely Congressional devastation of the social security fund (septel). Initial reaction to the dramatic shift has been muted here, but expected to build. With the GOE still divided on the issue, we recommend USG public reserve until the facts are clearer. End Summary.

12. (C) FM Parra dined on July 9 in Caracas with President Chavez, MinFin Correa visited with his counterpart there on July 12, and on July 13 financial press reported that Venezuela will buy \$500 million in Ecuadorian bonds (although Correa is denying it). FM Parra's visit to Caracas was unannounced here, only confirmed by the MFA several days later after press inquiries.

13. (U) According to an MFA statement, the dinner was at Chavez' invitation, and also included Venezuelan FM Rodriguez. At the dinner, Chavez "expressed his hope to increase integration and cooperation between the two countries on issues of common interest, including education, health, science and technology, and in energy and petroleum." Chavez reportedly also invited Ecuador to participate in the creation of an Americas Fund for Cooperation and Development, to which the GOV had pledged \$100 million. Before leaving, Parra invited his counterpart to attend an upcoming meeting of South American foreign ministers in Guayaquil. Press here are speculating that President Palacio may meet with Chavez on the margins of the Andean presidential summit in Lima on July 18.

14. (U) Parra's visit was followed by a July 12 visit to Caracas by MinFin Rafael Correa, who reportedly met with GOV Energy Minister Ramirez, and likely with Minister of Finance Merentes. According to some reports, Venezuela promised to purchase \$500 million in GOE bonds. Correa, however, after answering initial inquiries about the deal with the cryptic "money is money, politics is something else," at midday on July 14 denied that any agreement regarding bond purchases was reached, suggesting, rather, that the discussion centered on cooperation in the oil sector, including the possibility that Venezuela would invest in the development of refinery capacity in Ecuador.

GOE Sending Mixed Signals

15. (C) MFA U/S for Bilateral Affairs Susana Alvear, discussing GOE-GOV relations with ADCM on July 12, did not raise the meeting. In response to USG concerns about democratic weakening in Venezuela and about destabilizing Venezuelan influence in the region, Alvear stated that the GOE is not concerned about the level of "Bolivarian" influence in Ecuador, and wishes to maintain the best possible relations with all nations, especially its neighbors in the region.

16. (C) Presidential secretary Luis Herreria told ADCM on July 14 that the Parra visit and the loan offer were hatched by Parra and Correa without President Palacio's approval. No decision has been taken on whether to accept Venezuelan assistance. He added that Chavez had asked Palacio to fire Herreria for his recent public statement calling Chavez' designs in Ecuador "diabolical." Herreria, Palacio's closest confidant, said he was not going anywhere.

Comment

17. (C) Divisions clearly exist within the Cabinet on whether to accept Chavez' offer. We will continue to press for greater clarity from the GOE on this issue and the strings attached to any economic deals with the GOV. With MinFin Correa doubtful about IFI support, investors refusing to roll over short-term local debt, and Congress taking irresponsible actions on the social security system, Chavez' offer may be tempting to the GOE. We need to emphasize the political costs to help balance the equation, but caution against a public USG reaction until the facts are clearer.

HERBERT